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Statement on Auditing Standards

Issued by the Auditing Standards Board

May 1992

71

AICPA

American Institute of Certified Public Accountants

Interim Financial Information

(Supersedes Statement on Auditing Standards Nos. 36 and 66, AICPA, Professional Standards, vol. 1, AU sec. 722.)

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Introduction

1. This Statement provides guidance on the nature, timing, and extent of procedures to be applied by the independent accountant in conducting a review of interim financial information, as defined in paragraph 2, and on the reporting applicable to such engagements. It also establishes certain communication requirements for an accountant who has been engaged to perform certain services related to interim financial information, as described in paragraph 5.

2. For purposes of this Statement, the term *interim financial information* or *statements* means financial information or statements for less than a full year or for a twelve-month period ending on a date other than the entity's fiscal year end.

Applicability

3. The guidance in this Statement applies only to—
- a. Engagements to review interim financial information or statements of a public entity¹ that are presented alone either in the form of financial statements or in a summarized form that purports to conform with the provisions of Accounting Principles Board (APB) Opinion No. 28 (Financial Accounting Standards Board [FASB], *Current Text*, vol. 1, AC sec. I73).²

¹ For purposes of this Statement, a public entity is any entity (a) whose securities trade in a public market either on a stock exchange (domestic or foreign) or in the over-the-counter market, including securities quoted only locally or regionally, (b) that makes a filing with a regulatory agency in preparation for the sale of any class of its securities in a public market, or (c) that is a subsidiary, corporate joint venture, or other entity controlled by an entity covered by (a) or (b) (see Statement on Auditing Standards [SAS] No. 26, *Association With Financial Statements* [AICPA, *Professional Standards*, vol. 1, AU sec. 504]). When a public entity does not have its annual financial statements audited, an accountant may be requested to review its annual or interim financial statements. In those circumstances, an accountant may make a review and, if so, should refer to the guidance in Statements on Standards for Accounting and Review Services (SSARSs) for the standards, procedures, and form of report applicable to such an engagement.

² SSARSs provide guidance in connection with the unaudited financial statements of a nonpublic entity.

- b. Interim financial information that accompanies, or is included in a note to, audited financial statements of a public entity.
- c. Interim financial information that is included in a note to the audited financial statements of a nonpublic entity.³

4. This Statement also provides guidance on reporting by the independent auditor when certain selected quarterly financial data required to be presented with audited annual financial statements by item 302(a) of Regulation S-K of the Securities and Exchange Commission (SEC) are not presented or are presented but have not been reviewed (see paragraph 41 for guidance).⁴

5. The guidance requiring certain communications as described in paragraphs 20 through 22 applies only when (a) the accountant's report accompanied the entity's most recent audited annual financial statements filed with a specified regulatory agency,⁵ or the accountant has been engaged to audit the entity's annual financial statements for the current period, as stated in a document filed by the entity with a specified regulatory agency, and (b) the accountant is engaged—

- a. To assist the entity in preparing its interim financial information, or

³Nonpublic entities frequently include interim financial information as supplementary information.

If that information is included in an auditor-submitted document that contains basic financial statements, the accountant should refer to SAS No. 29, *Reporting on Information Accompanying the Basic Financial Statements in Auditor-Submitted Documents* (AICPA, *Professional Standards*, vol. 1, AU sec. 551), for guidance.

If the information is included in a client-prepared document that contains audited financial statements, the auditor should refer to the guidance in SAS No. 8, *Other Information in Documents Containing Audited Financial Statements* (AICPA, *Professional Standards*, vol. 1, AU sec. 550); if the information included in the client-prepared document is a complete set of financial statements, the accountant may perform a review in accordance with SSARs and report thereon.

⁴Additional considerations for the accountant when unaudited interim financial information is presented or incorporated by reference in a filing under the Securities Act of 1933 are described in SAS No. 37, *Filings Under Federal Securities Statutes* (AICPA, *Professional Standards*, vol. 1, AU sec. 711). The accountants' involvement with such information in a comfort letter is described in SAS No. 49, *Letters for Underwriters* (AICPA, *Professional Standards*, vol. 1, AU sec. 634).

⁵For purposes of this Statement, specified regulatory agencies are the SEC and the following agencies with which an entity files periodic reports pursuant to the Securities Exchange Act of 1934: Office of the Comptroller of the Currency, Federal Deposit Insurance Corporation, Federal Reserve System, and Office of Thrift Supervision.

b. To perform any of the procedures described in paragraph 13 on the interim financial information. However, mere reading of the interim financial information does not constitute a procedure sufficient to require consideration of the communication requirements described in paragraphs 20 through 22.

6. This Statement does not apply to comparative presentations of audited and unaudited financial data as discussed in SAS No. 26, *Association With Financial Statements* (AICPA, *Professional Standards*, vol. 1, AU sec. 504), paragraphs 14 through 17.

Understanding With the Client

7. A clear understanding should be established with the client regarding the nature of the procedures to be performed on the interim financial information. Accordingly, the accountant may wish to confirm the nature and scope of his or her engagement in a letter to the client. The letter usually would include (a) a general description of the procedures, (b) an explanation that such procedures are substantially less in scope than an audit performed in accordance with generally accepted auditing standards, (c) an explanation that the financial information is the responsibility of the company's management, and (d) a description of the form of the report, if any.

Characteristics of Interim Financial Information

8. The characteristics of interim financial information necessarily affect the nature, timing, and extent of procedures that the accountant applies in conducting a review of that information. Timeliness is an important element of interim financial reporting. Interim financial information customarily is made available to investors and others more promptly than is annual financial information. Timely reporting of interim financial information ordinarily precludes the development by management of information and documentation underlying interim financial information to the same extent as that underlying annual financial information. Therefore, a characteristic of interim financial information is that many revenues, costs, and expenses are estimated to a greater extent than for annual reporting purposes. Another characteristic of interim financial

information is its relationship to annual financial information. Deferrals, accruals, and estimates at the end of each interim period are frequently affected by judgments made at interim dates concerning anticipated results of operations for the remainder of the annual period.

Objective of a Review of Interim Financial Information

9. The objective of a review of interim financial information is to provide the accountant, based on applying his or her knowledge of financial reporting practices to significant accounting matters of which he or she becomes aware through inquiries and analytical procedures, with a basis for reporting whether material modifications should be made for such information to conform with generally accepted accounting principles. The objective of a review of interim financial information differs significantly from the objective of an audit of financial statements in accordance with generally accepted auditing standards. The objective of an audit is to provide a reasonable basis for expressing an opinion regarding the financial statements taken as a whole. A review of interim financial information does not provide a basis for the expression of such an opinion, because the review does not contemplate (a) tests of accounting records through inspection, observation, or confirmation, (b) obtaining corroborating evidential matter in response to inquiries, or (c) the application of certain other procedures ordinarily performed during an audit. A review may bring to the accountant's attention significant matters affecting the interim financial information, but it does not provide assurance that the accountant will become aware of all significant matters that would be disclosed in an audit.

The Accountant's Knowledge of Internal Control Structure Policies and Procedures

10. To perform a review of interim financial information, the accountant needs to have sufficient knowledge of a client's internal control structure policies and procedures as they relate to the preparation of both annual and interim financial information to—

- Identify types of potential material misstatements in the interim financial information and consider the likelihood of their occurrence.
- Select the inquiries and analytical procedures that will provide the accountant with a basis for reporting whether material modifications should be made for such information to conform with generally accepted accounting principles.

Knowledge of the client's internal control structure includes knowledge of the control environment, the accounting system, and, to the extent appropriate, control procedures. Sufficient knowledge of a client's internal control structure policies and procedures as they relate to the preparation of annual financial information would ordinarily have been acquired, and may have been acquired with respect to interim financial information, by the accountant who has audited a client's financial statements for one or more annual periods. When the accountant has not audited the most recent annual financial statements, and thus has not acquired sufficient knowledge of the entity's internal control structure policies and procedures, the accountant should perform procedures to obtain that knowledge.

11. If the internal control structure appears to contain deficiencies so significant that it is impracticable for the accountant to effectively apply his or her knowledge of accounting and financial reporting practices to the interim financial information, the accountant should consider whether this precludes completion of such a review (see paragraph 26).

Procedures for a Review of Interim Financial Information

12. The procedures for a review of interim financial information are described in the following paragraphs concerning (a) the nature of procedures (paragraph 13), (b) the timing of procedures (paragraph 14), and (c) the extent of procedures (paragraphs 15 through 19).

Nature of Procedures

13. Procedures for conducting a review of interim financial information generally are limited to inquiries and analytical procedures, rather than search and verification procedures, concerning significant account-

ing matters relating to the financial information to be reported. The procedures that the accountant ordinarily should apply are—

- a.* Inquiry concerning (1) the internal control structure, including the control environment, the accounting system, and, to the extent appropriate, control procedures, for both annual and interim financial information, and (2) any significant changes in the internal control structure since the most recent financial statement audit or review of interim financial information to ascertain the potential effect of (1) and (2) on the preparation of interim financial information.
- b.* Application of analytical procedures to interim financial information to identify and provide a basis for inquiry about relationships and individual items that appear to be unusual. Analytical procedures, for purposes of this Statement, consist of (1) comparison of the interim financial information with comparable information for the immediately preceding interim period and for corresponding previous period(s), (2) evaluations of the interim financial information made by consideration of plausible relationships among both financial and, where relevant, nonfinancial data, and (3) comparisons of recorded amounts, or ratios developed from recorded amounts, to expectations developed by the accountant. The accountant develops such expectations by identifying and using plausible relationships that are reasonably expected to exist based on the accountant's understanding of the client and of the industry in which the client operates. Following are examples of sources of information for developing expectations:
 - Financial information for comparable prior period(s) giving consideration to known changes
 - Anticipated results—for example, budgets or forecasts including extrapolations from interim or annual data
 - Relationships among elements of financial information within the period
 - Information regarding the industry in which the client operates—for example, gross margin information
 - Relationships of financial information with relevant nonfinancial information

In applying these procedures, the accountant should consider the types of matters that, in the preceding year or quarters, have required accounting adjustments. The accountant may find the guid-

ance in SAS No. 56, *Analytical Procedures* (AICPA, *Professional Standards*, vol. 1, AU sec. 329), useful in performing a review of interim financial information. SAS No. 56 provides guidance on the use of analytical procedures in a financial statement audit and requires the auditor to obtain corroborating evidential matter when analytical procedures are used as a substantive test. The accountant ordinarily would not obtain corroborating evidential matter of management's responses to the accountant's inquiries in performing a review of interim financial information. The accountant should, however, consider the consistency of management's responses in light of the results of other inquiries and the application of analytical procedures. Since many revenues, costs, and expenses are estimated to a greater extent in interim financial information than for annual financial reporting purposes, the accountant may wish to refer to the guidance in SAS No. 57, *Auditing Accounting Estimates* (AICPA, *Professional Standards*, vol. 1, AU sec. 342), paragraphs 5 and 6.

- c. Reading the minutes of meetings of stockholders, the board of directors, and committees of the board of directors to identify actions that may affect the interim financial information.
- d. Reading the interim financial information to consider whether, on the basis of information coming to the accountant's attention, the information to be reported conforms with generally accepted accounting principles.
- e. Obtaining reports from other accountants, if any, who have been engaged to make a review of the interim financial information of significant components of the reporting entity, its subsidiaries, or its other investees.⁶
- f. Inquiry of officers and other executives having responsibility for financial and accounting matters concerning (1) whether the interim financial information has been prepared in conformity with generally accepted accounting principles consistently applied, (2) changes in the entity's accounting practices, (3) changes in the entity's business

⁶When an accountant acts as principal auditor (see SAS No. 1, *Codification of Auditing Standards and Procedures*, "Part of Audit Performed by Other Independent Auditors" [AICPA, *Professional Standards*, vol. 1, AU sec. 543]) and makes use of the work or reports of other auditors in the course of the annual audit of the client's financial statements, the accountant ordinarily will be in a similar position in connection with a review of interim financial information. Thus, the accountant should take into account the same considerations in deciding whether to refer in his or her review report to the review performed by the other accountants.

activities, (4) matters about which questions have arisen in the course of applying the foregoing procedures, and (5) events subsequent to the date of the interim financial information that would have a material effect on the presentation of such information.

- g. Obtaining written representations from management concerning its responsibility for the financial information, completeness of minutes, subsequent events, and other matters about which the accountant believes written representations are appropriate in the circumstances. See SAS No. 19, *Client Representations* (AICPA, *Professional Standards*, vol. 1, AU sec. 333), for guidance concerning client representations.

Timing of Procedures

14. Adequate planning by the accountant is essential to the timely completion of a review of interim financial information. Performance of some of the work before the end of the interim period may permit the work to be carried out in a more efficient manner and to be completed at an earlier date. Performing some of the work earlier in the interim period also permits early consideration of significant accounting matters affecting the interim financial information.

Extent of Procedures

15. The extent to which the procedures referred to in paragraph 13 are applied depends on the considerations described in paragraphs 16 through 19.

16. *The Accountant's Knowledge of Changes in Accounting Practices or in the Nature or Volume of Business Activity.* A review of interim financial information may bring to the accountant's attention significant changes in accounting practices or in the nature or volume of the client's business activities. Examples of changes that could affect the interim financial information to be reported include business combinations; disposal of a segment of the business; extraordinary, unusual, or infrequently occurring transactions; significant changes in related parties or related-party transactions; initiation of litigation or the development of other contingencies; trends in sales or costs that could affect accounting estimates relating to the valuations of receivables and inventories, realization of deferred charges, provisions for warranties and employee

benefits, and unearned income; and changes in accounting principles or in the methods of applying them. If any such changes come to the accountant's attention, he or she should inquire about the manner in which the changes and their effects are to be reported in the interim financial information.

17. *Inquiry Concerning Litigation, Claims, and Assessments.* A review of interim financial information does not involve obtaining corroborating evidential matter for responses to inquiries as a basis for issuing an unmodified accountant's report (see paragraph 9). Consequently, it ordinarily is not necessary to send an audit inquiry letter to a client's lawyer concerning litigation, claims, and assessments. However, if information comes to the accountant's attention that leads him or her to question whether the unaudited interim financial information departs from generally accepted accounting principles insofar as litigation, claims, or assessments may be concerned, and the accountant believes the client's lawyer may have information concerning that question, an inquiry of the lawyer concerning the specific question is appropriate.

18. *Questions Raised in Performing Other Procedures.* If, in performing a review of interim financial information, the accountant becomes aware of information that leads him or her to question whether the interim financial information to be reported conforms with generally accepted accounting principles, the accountant should make additional inquiries or employ other procedures he or she considers appropriate in order to provide the limited assurance for a review engagement.

19. *Modification of Review Procedures.* The procedures for a review of interim financial information may be modified, as appropriate, to take into consideration the results of auditing procedures applied in an audit conducted in accordance with generally accepted auditing standards.

Communication With Audit Committees

20. As a result of performing the services described in paragraph 5, the accountant may become aware of matters that cause him or her to believe that interim financial information, filed or to be filed with a specified regulatory agency, is probably materially misstated as a result of a departure from generally accepted accounting principles. In such cir-

cumstances, the accountant should discuss the matters with the appropriate level of management as soon as practicable.

21. If, in the accountant's judgment, management does not respond appropriately to the accountant's communication within a reasonable period of time, the accountant should inform the audit committee, or others with equivalent authority and responsibility (hereafter referred to as the audit committee), of the matters as soon as practicable. This communication may be oral or written. If information is communicated orally, the accountant should document the communication in appropriate memoranda or notations in the working papers.

22. If, in the accountant's judgment, the audit committee does not respond appropriately to the accountant's communication within a reasonable period of time, the accountant should evaluate (a) whether to resign from the engagement related to the interim financial information, and (b) whether to remain as the entity's auditor or stand for reelection to audit the entity's financial statements. The accountant may wish to consult with his or her attorney when making these evaluations.

23. In performing the procedures in paragraphs 13 through 19, the accountant may become aware of irregularities or illegal acts by clients. The accountant should assure himself or herself that the audit committee is adequately informed about—

- a. Any irregularities of which the accountant becomes aware during the review, unless those irregularities are clearly inconsequential. (See SAS No. 53, *The Auditor's Responsibility to Detect and Report Errors and Irregularities* [AICPA, *Professional Standards*, vol. 1, AU sec. 316], paragraphs 28 and 29.)
- b. Any illegal acts of which the accountant becomes aware during the review, unless those illegal acts are clearly inconsequential. (See SAS No. 54, *Illegal Acts By Clients* [AICPA, *Professional Standards*, vol. 1, AU sec. 317], paragraph 17.)

24. In performing the procedures in paragraphs 13 through 19, the accountant may become aware of matters relating to the internal control structure that may be of interest to the audit committee. The matters required for reporting to the audit committee are referred to as reportable conditions. Specifically, these are matters coming to the accountant's attention that, in his or her judgment, should be communicated to the audit committee because they represent significant

deficiencies in the design or operation of the internal control structure, which could adversely affect the organization's ability to record, process, summarize, and report financial data consistent with the assertions of management in the interim financial information. The accountant may also wish to submit recommendations for other matters of significance that come to the accountant's attention.⁷

25. In performing the procedures in paragraphs 13 through 19, the accountant also should consider whether any of the matters described in SAS No. 61, *Communication With Audit Committees* (AICPA, *Professional Standards*, vol. 1, AU sec. 380), as they relate to the interim financial information, should be communicated to the audit committee. For instance, the accountant should determine that the audit committee is informed about the process used by management in formulating particularly sensitive accounting estimates or about a change in a significant accounting policy affecting the interim financial information.

The Accountant's Report on a Review of Interim Financial Information

26. An accountant may permit the use of his or her name and inclusion of his or her report in a written communication setting forth interim financial information if he or she has made a review of such information as specified in the preceding paragraphs. If restrictions on the scope of a review of interim financial information preclude completion of such a review, the accountant should not permit the use of his or her name.⁸ Restrictions on the scope of the review may be imposed by a client or may be caused by such circumstances as the timing of the accountant's work or an inadequacy in the accounting records.

⁷ SAS No. 60, *Communication of Internal Control Structure Related Matters Noted in an Audit* (AICPA, *Professional Standards*, vol. 1, AU sec. 325), provides guidance with respect to communicating reportable conditions in the internal control structure.

⁸ See paragraph 35 concerning a client's representation when the scope of a review of interim financial information has been restricted. Also, when the accountant is unable to complete such a review because of a scope limitation, he or she should consider the implications of that limitation with respect to the interim financial information issued by the client. In those circumstances, the accountant should also refer to paragraph 24 for guidance.

Form of Accountant's Review Report

27. The accountant's report accompanying interim financial information that he or she has reviewed should consist of—

- a. A title that includes the word *independent*.
- b. Identification of the interim financial information reviewed.
- c. A statement that the financial information is the responsibility of the company's management.
- d. A statement that the review of interim financial information was conducted in accordance with standards established by the AICPA.
- e. A description of the procedures for a review of interim financial information.
- f. A statement that a review of interim financial information is substantially less in scope than an audit conducted in accordance with generally accepted auditing standards, the objective of which is an expression of opinion regarding the financial statements taken as a whole, and accordingly, no such opinion is expressed.
- g. A statement about whether the accountant is aware of any material modifications that should be made to the accompanying financial information so that it conforms with generally accepted accounting principles.
- h. The manual or printed signature of the accountant's firm.
- i. The date of the review report. The report may be addressed to the company whose financial information is being reviewed, its board of directors, or its stockholders. Generally, the report should be dated as of the date of completion of the review.⁹ In addition, each page of the interim financial information should be clearly marked as unaudited.

28. An example of such a report follows:¹⁰

⁹Other reporting issues involved in the dating of reports or concerning subsequent events are similar to those encountered in an audit of financial statements (see SAS No. 1, *Codification of Auditing Standards and Procedures*, "Dating of the Independent Auditor's Report" [AICPA, *Professional Standards*, vol. 1, AU sec. 530]).

¹⁰If interim financial information of a prior period is presented with that of the current period and the accountant has conducted a review of that information, the accountant should report on his or her review of the prior period. An example of the first sentence of such a report follows: "We have reviewed...of ABC Company and consolidated subsidiaries as of September 30, 19X1 and 19X2, and for the three-month and nine-month periods then ended...."

Independent Accountant's Report

We have reviewed the accompanying [*describe the statements or information reviewed*] of ABC Company and consolidated subsidiaries as of September 30, 19X1, and for the three-month and nine-month periods then ended. These financial statements (information) are (is) the responsibility of the company's management.

We conducted our review in accordance with standards established by the American Institute of Certified Public Accountants. A review of interim financial information consists principally of applying analytical procedures to financial data and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with generally accepted auditing standards, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our review, we are not aware of any material modifications that should be made to the accompanying financial statements (information) for them (it) to be in conformity with generally accepted accounting principles.

[Signature]

[Date]

29. The accountant may use and make reference to the report of another accountant on a review of interim financial information of a significant component of the reporting entity. This reference indicates a division of responsibility for performance of the review.¹¹ An example of a report including such a reference follows:

Independent Accountant's Report

We have reviewed the accompanying [*describe the statements or information reviewed*] of ABC Company and consolidated subsidiaries as of September 30, 19X1, and for the three-month and nine-month periods then ended. These financial statements (information) are (is) the responsibility of the company's management.

We were furnished with the report of other accountants on their review of the interim financial information of ADE subsidiary, whose total assets as of September 30, 19X1, and whose revenues for the three-month and nine-month periods then ended, constituted 15 percent, 20 percent, and 22 percent, respectively, of the related consolidated totals.

¹¹ See SAS No. 1, *Codification of Auditing Standards and Procedures*, "Part of Audit Performed by Other Independent Auditors" (AICPA, *Professional Standards*, vol. 1, AU sec. 543).

We conducted our review in accordance with standards established by the American Institute of Certified Public Accountants. A review of interim financial information consists principally of applying analytical procedures to financial data and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with generally accepted auditing standards, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our review and the report of other accountants, we are not aware of any material modifications that should be made to the accompanying financial statements (information) for them (it) to be in conformity with generally accepted accounting principles.

[Signature]

[Date]

Modification of the Accountant's Review Report

30. The accountant's report on a review of interim financial information should be modified for departures from generally accepted accounting principles,¹² which include inadequate disclosure and any changes in accounting principle that are not in conformity with generally accepted accounting principles. The existence of an uncertainty, substantial doubt about the entity's ability to continue as a going concern, or a lack of consistency in the application of accounting principles affecting interim financial information would not require the accountant to include an additional paragraph in the report, provided that the interim financial information appropriately discloses such matters. Although not required, the accountant may wish to emphasize such matters in a separate paragraph of the report.

31. *Departure From Generally Accepted Accounting Principles.* If the accountant becomes aware that the interim financial information is materially affected by a departure from generally accepted accounting principles, he or she should modify the report. The modification should describe the nature of the departure and, if practicable, should state the

¹² When the circumstances contemplated by rule 203 (AICPA, *Professional Standards*, vol. 2, ET sec. 203, paragraph 1) are present, the accountant should refer to the guidance in SAS No. 58, *Reports on Audited Financial Statements* (AICPA, *Professional Standards*, vol. 1, AU sec. 508) paragraph 15.

effects on the interim financial information. An example of such a modification of the accountant's report follows:

[Explanatory third paragraph]

Based on information furnished us by management, we believe that the company has excluded from property and debt in the accompanying balance sheet certain lease obligations that should be capitalized to conform with generally accepted accounting principles. This information indicates that if these lease obligations were capitalized at September 30, 19X1, property would be increased by \$_____, long-term debt by \$_____, and net income and earnings per share would be increased (decreased) by \$_____, \$_____, \$_____, and \$_____, respectively, for the _____ and _____ periods then ended.

[Concluding paragraph]

Based on our review, with the exception of the matter(s) described in the preceding paragraph(s), we are not aware of any material modifications that should be made to the accompanying financial statements (information) for them (it) to be in conformity with generally accepted accounting principles.

32. *Inadequate Disclosure.* The information the accountant will conclude is necessary for adequate disclosure will be influenced by the form and context in which the interim financial information is presented. For example, the disclosures considered necessary for interim financial information presented in accordance with the minimum disclosure requirements of APB Opinion No. 28, paragraph 30 (FASB, *Current Text*, vol. 1, AC sec. I73.146), are considerably less extensive than those necessary for annual financial statements that present financial position, results of operations, and cash flows in conformity with generally accepted accounting principles.¹³ If information that the accountant believes is necessary for adequate disclosure in conformity with generally accepted accounting principles is not included in the interim financial information, the accountant should modify the report and, if practicable, include the necessary information. An example of such a modification of the accountant's report follows:

¹³ APB Opinion No. 28, paragraph 32 (FASB, *Current Text*, vol. 1, AC sec. I73.148), states that "there is a presumption that users of summarized interim financial data will have read the latest published annual report, including the financial disclosures required by generally accepted accounting principles and management's commentary concerning the annual financial results, and that the summarized interim data will be viewed in that context."

[Explanatory third paragraph]

Management has informed us that the company is presently contesting deficiencies in federal income taxes proposed by the Internal Revenue Service for the years 19XX through 19XY in the aggregate amount of approximately \$_____, and that the extent of the company's liability, if any, and the effect on the accompanying statements (information) are (is) not determinable at this time. The statements (information) fail(s) to disclose these matters, which we believe are required to be disclosed in conformity with generally accepted accounting principles.

[Concluding paragraph]

Based on our review, with the exception of the matter(s) described in the preceding paragraph(s), we are not aware of any material modifications that should be made to the accompanying financial statements (information) for them (it) to be in conformity with generally accepted accounting principles.

Other Information in Documents Containing Interim Financial Information

33. An entity may publish various documents that contain information in addition to interim financial information and the independent accountant's review report on that interim financial information. Under those circumstances, the accountant¹⁴ may wish to refer to the guidance in SAS No. 8, *Other Information in Documents Containing Audited Financial Statements* (AICPA, *Professional Standards*, vol. 1, AU sec. 550).

Subsequent Discovery of Facts Existing at the Date of the Accountant's Report

34. Subsequent to the date of the accountant's review report, the accountant may become aware that facts existed at the date of the review report that might have affected the report had the accountant then been aware of those facts. Because of the variety of conditions that might be encountered, the specific actions to be taken by the accountant in a particular case may vary with the circumstances. In any event, the accountant should consider the guidance in SAS No. 1, *Codification of Auditing Standards and Procedures*, "Subsequent Discovery of Facts

¹⁴ The principal accountant may also request the other accountant or accountants involved in the engagement to read the other information.

Existing at the Date of the Auditor's Report" (AICPA, *Professional Standards*, vol. 1, AU sec. 561).

Client's Representation Concerning a Review of Interim Financial Information

35. The accountant may be requested to conduct a review of interim financial information to permit the client to include a representation to that effect in documents issued to stockholders or third parties or in Form 10-Q, a quarterly report required to be submitted to the SEC pursuant to section 13 or 15(d) of the Securities Exchange Act of 1934. If the client represents in such a document setting forth interim financial information that the accountant has made a review of that information, the accountant should request that his or her report be included.¹⁵ If the client will not agree to include the accountant's report or if the accountant has been unable to complete the review (see paragraph 26), the accountant should request that neither his or her name be associated with the interim financial information nor reference to him or her be made in the document. If the client does not comply, the accountant should advise the client that the accountant does not consent, either to the use of his or her name or to reference to him or her, and should consider what other actions might be appropriate.¹⁶

Interim Financial Information Accompanying Audited Financial Statements

Presentation of the Information and Application of Review Procedures

36. Certain entities are required by item 302(a) of SEC Regulation S-K to include selected quarterly financial data in their annual reports or other documents filed with the SEC that contain audited financial state-

¹⁵ SEC regulations require that if the client includes a representation that the independent accountant has conducted a review, the accountant's report on the review must accompany the interim financial information.

¹⁶ In considering what actions, if any, may be appropriate in these circumstances, the accountant may wish to consult his or her legal counsel.

ments.¹⁷ If the independent accountant has audited the financial statements of annual periods for which selected quarterly financial data specified by Regulation S-K are required to be presented, he or she should apply the review procedures specified in paragraphs 13 through 19 to the selected quarterly financial data. The reporting guidance in paragraph 41 is appropriate if the independent accountant has not performed such a review.

37. Other entities may voluntarily include in documents containing audited financial statements the selected quarterly financial data specified in item 302(a) of SEC Regulation S-K. When a public entity voluntarily includes such information, the procedures specified in paragraphs 13 through 19 are applicable, unless either the entity indicates that the quarterly data have not been reviewed or the auditor expands his or her report on the audited financial statements to state that the data have not been reviewed (see paragraph 42).¹⁸

38. The interim financial information ordinarily would be presented as supplementary information outside the audited financial statements. Each page of the interim financial information should be clearly marked as unaudited. If management chooses to present the interim financial information in a note to the audited financial statements, the information should also be clearly marked as unaudited.

39. The accountant may perform the review procedures either at the time of an audit of the annual financial statements or quarterly before the issuance of the data. Performance of the procedures before issuance permits early consideration of significant accounting matters affecting the interim financial information and early modification of accounting procedures that the accountant believes might be improved. If review procedures are performed before the issuance of the quarterly data, they need not be repeated at the time an audit is performed.

¹⁷ Item 302(a), “Supplementary Financial Information—Selected Quarterly Financial Data,” states, in part, “Disclosure shall be made of net sales, gross profit..., income (loss) before extraordinary items and cumulative effect of a change in accounting, per share data based upon such income (loss), and net income (loss) for each full quarter within the two most recent fiscal years and any subsequent interim period for which financial statements are included or are required to be included....”

¹⁸ If the interim financial information is included in an auditor-submitted document, the auditor should refer to SAS No. 29, *Reporting on Information Accompanying the Basic Financial Statements in Auditor-Submitted Documents* (AICPA, *Professional Standards*, vol. 1, AU sec. 551), for guidance.

Circumstances Requiring Modification of the Auditor's Report

40. The auditor ordinarily need not modify the report on the audited financial statements to refer to his or her review or to refer to the interim financial information. The interim financial information has not been audited and is not required for presentation of financial position, results of operations, and cash flows in conformity with generally accepted accounting principles. Accordingly, the auditor need not report on the review of the interim financial information accompanying the audited financial statements.

41. *Quarterly Data Required by SEC Regulation S-K.* The auditor's report on the audited financial statements should be expanded, however, if the selected quarterly financial data required by item 302(a) of Regulation S-K (a) are omitted or (b) have not been reviewed. For example, if the selected quarterly financial data required by item 302(a) are omitted, the auditor's report should include an additional paragraph, which might be worded as follows:

The company has not presented the selected quarterly financial data, specified by item 302(a) of Regulation S-K, that the Securities and Exchange Commission requires as supplementary information to the basic financial statements.

If the selected quarterly financial data required by item 302(a) have not been reviewed, the auditor's report should include an additional paragraph, which might be worded as follows:

The selected quarterly financial data on page xx contain information that we did not audit, and, accordingly, we do not express an opinion on that data. We attempted but were unable to review the quarterly data in accordance with standards established by the American Institute of Certified Public Accountants because we believe that the company's internal control structure policies and procedures for the preparation of interim financial information do not provide an adequate basis to enable us to complete such a review.

42. *Voluntary or Required Presentations of Interim Financial Information.* The auditor's report on the audited financial statements should also be expanded in any of the following circumstances:

- a. Interim financial information included in a note to the financial statements of a public or nonpublic entity, including information that has been reviewed in accordance with the procedures specified in paragraphs 13 through 19, is not appropriately marked as unaudited.

- b.* Item 302(a) information that has not been reviewed is voluntarily presented by a public entity in a client-prepared document containing audited financial statements, and the information is not appropriately marked as not reviewed.
- c.* The interim financial information in *a* or *b* does not appear to be presented in conformity with generally accepted accounting principles (see paragraphs 30 through 32).
- d.* The interim financial information includes an indication that a review was made but fails to state that the review is substantially less in scope than an audit conducted in accordance with generally accepted auditing standards, the objective of which is an expression of opinion regarding the financial statements taken as a whole, and accordingly, no such opinion is expressed.

The auditor need not expand his or her report on the audited financial statements in the circumstances described in *c* and *d* if his or her separate review report, which refers to those circumstances, is presented with the information.

Other Matters

43. It is not possible to specify the form or the content of the working papers the accountant should prepare in connection with a review of interim financial information because of the different circumstances of individual engagements. Ordinarily, the working papers should document the performance and results of the procedures set forth in paragraphs 13 through 19. See SAS No. 41, *Working Papers* [AICPA, *Professional Standards*, vol. 1, AU sec. 339] for further guidance concerning working papers.

Effective Date

44. This Statement is effective for interim periods within fiscal years beginning after September 15, 1992. Reports issued or reissued after September 15, 1992 (including engagements based on procedures under SAS No. 36), should conform with the reporting guidance in this Statement. Earlier application is encouraged.

This Statement entitled Interim Financial Information was adopted unanimously by the seventeen members of the board.

Auditing Standards Board (1991)

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Note: *Statements on Auditing Standards are issued by the Auditing Standards Board, the senior technical body of the Institute designated to issue pronouncements on auditing matters. Rule 202 of the Institute's Code of Professional Conduct requires compliance with these standards.*

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